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**TASK FORCE ON PAY AND COMPENSATION
THE NATIONAL COMMISSION
ON THE PUBLIC SERVICE**

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Recommendations

Task Force on Pay and Compensation

COMPENSATING FOR GOVERNANCE

1. Act to improve salaries of officials in the top Executive Levels. President Reagan should accept recommendations of the Quadrennial Commission. The next President and Congress should not disapprove the President's executive salary recommendations.
2. Develop and enact legislation to guard against future erosion of executive level salaries: use levels established in response to the first Quadrennial Commission as a reference for salaries; extend appointments to the Commission from one to four years.
3. Issue an Executive Order improving compensation for the Senior Executive Service, within the newly expanded range provided by raising pay at top Executive Levels.
4. Improve the SES pay setting process by mandating initiatives suggested and assigning the Quadrennial Commission to evaluate SES compensation practices.
5. Draft and enact legislation to change the process for making annual market adjustments to pay requiring: comparability adjustments based on the relevant local labor market; a decentralized, coordinated system for pay setting modeled on the Federal Wage System; and expanded "special rates" provisions for high-priced occupational groups that distort salary surveys.
6. Phase out the pay "cap" imposed on blue collar prevailing rates since 1978.
7. Mandate well designed experiments intended to develop the base of knowledge needed to inform policy decisions about the financial terms and conditions of Federal employment.
8. Restore confidence of Federal employees and of the American public in the fairness and effectiveness of Federal pay setting processes.
9. Stabilize and reliably carry out the terms and conditions of Federal compensation, refrain from politically expedient deviations, and require that demonstration projects changing basic terms and conditions of compensation be done only in areas where compensation is reasonably adequate.
10. Lead the American people in placing an appropriate value on the work of Federal employees.

Report of the Task Force on Pay and Compensation
to
The National Commission on the Public Service

Executive Summary

COMPENSATION FOR GOVERNANCE

PROBLEM

Effective performance of the Federal workforce is a key factor in our response as a nation to international economic challenges, and to our internal needs as a society. That Federal workforce effectiveness has declined cannot be either irrefutably supported or denied on the basis of available data; however, the bulk of the data points in the same direction. The contribution of compensation to that decline of effectiveness also cannot be definitively evaluated. Nonetheless, careful examination of compensation practices and trends in the light of available studies and business experience, reveals obvious major problems that should be addressed.

Those who become and remain Federal employees do not expect to accumulate great financial wealth. Their rewards include important "psychic" rewards, along with a reasonable measure of financial security. Their financial compensation, however, should be sufficient to allow them to function effectively in their jobs without making unacceptable financial trade-offs.

Compensation is only one factor. It would, however, be dangerous if not irresponsible, if compensation as part of this mix were not adequate. Yet compensation at both the top and the lower levels of Federal employment has been allowed to slide downward in real terms by a major amount over the past 20 years. Inadequacy of top executives' pay (i.e., Judges, Congressmen, and top appointed officials) has made it more difficult to recruit and retain the talent needed. Holding pay down at the top has had the effect of holding down the pay for the entire structure. While pay at these levels has not been high in our history, its purchasing power has declined more than 30% since 1969, and the "level of sacrifice" has become too high. The impact on the budget of bringing executive pay back up to reasonable levels is negligible. For these and other reasons, the first priority for action is to raise executive pay.

The pay setting process for 1.4 million white collar workers has become dysfunctional. Since 1970, the CPI has increased +183 percentage points, private sector white collar pay increased +165, and Federal white collar pay increased +124. At present the average "pay gap" quoted to workers is 26.28%; the purchasing power of General Schedule pay rates has declined 23.6% since 1969. Shortfalls of this system have negatively affected systems linked to it (e.g., the Foreign Service), and other systems such as the Federal Wage System for paying blue collar workers.

Available studies show that the Federal benefits package, once considered to be much more generous than usual private sector benefits packages has declined in value as well, and is now at best only about 3 percentage points "better".

We are entering a period during which the available workforce is shrinking and it is becoming more difficult for all employers to attract qualified employees. Unless erosion of pay and of trust in pay setting processes is recognized, and the trend halted and substantially reversed, we see danger of loss of effectiveness in the Federal workforce. Although evidence is still largely anecdotal, there are indications that this may already be happening.

RECOMMENDATIONS

Executive Levels

1. Immediately act to improve salaries of officials in the top Executive Levels.

The President of the United States, Ronald Reagan should transmit with his budget message to the current Congress, a proposal for a substantial increase in the pay levels of elected and appointed Federal executives which is consistent with the recommendations of the Quadrennial Commission (the Commission on Executive, Legislative, and Judicial Salaries).

The next President and Congress should not disapprove the President's executive salary recommendations.

2. The next President and Congress should develop and enact legislation to guard against future erosion of executive level salaries. The legislation should

a. Institute a frame of reference for discussing adequacy of levels of executive compensation, i.e., some principle expressive of what can be regarded as an "acceptable level of sacrifice". That frame of reference could guide collection and reporting of data to monitor the level of sacrifice of serving Federal elected and appointed executives. Salary levels established in response to the first Quadrennial Commission represented a reasonable consensus of what was then acceptable, and should be the framework for monitoring adequacy of pay.

b. Extend the terms of members appointed to the Commission on Executive, Legislative, and Judicial Salaries (the Quadrennial Commission) from one fiscal year, to four fiscal years. Charge the Commission with gathering and analyzing data useful for monitoring executive pay, and periodically making available to the President information concerning typical executive compensation practices in both public and private sectors.

Senior Executive Service

3. The next President should issue an Executive Order improving compensation for the Senior Executive Service and relieving the "compression" of pay for different levels within the Senior Executive Service.

4. The next President and Congress should mandate initiatives and organizational arrangements to improve the SES pay setting process including:

charging the Quadrennial Commission with providing an annual report to the President which evaluates SES compensation practices, and

with seeking to develop a frame of reference for evaluating the adequacy of SES pay and for establishing pay level distinctions.

General Schedule

5. The next President and Congress should draft and enact legislation to change the process for making annual market adjustments to pay. The legislation should require:

comparability adjustments based on the relevant local labor market, rather than one, across-the-board, across-the-nation figure.

a decentralized, coordinated system for pay setting modeled on the system currently in effect for blue collar wage setting (the Federal Wage System), and taking into account lessons learned in the history of operation of that system.

expanded "special rates" provisions to be more responsive to high-priced occupational groups that distort overall salary survey findings.

Federal Wage System

6. The next President and Congress should mandate the Prevailing Rate Advisory Committee to phase out the dysfunctional ceiling on market adjustments of blue collar prevailing rates fixed in 1978, and simultaneously, to explore any improvements needed to improve the credibility of the blue collar (Federal Wage System) pay structure.

All Federal Pay Systems

7. The next President and Congress should mandate departments and agencies in collaboration with the Office of Personnel Management, to sponsor research and demonstration projects particularly in reference to linking financial incentives to performance, measuring and comparing total compensation, and adapting to a rapidly changing and nontraditional work environment and labor force (e.g., public/private partnerships, appropriate compensation for employed retirees). These small scale research and demonstration projects should be directed toward developing a base of knowledge to inform policy decisions about the financial terms and conditions of Federal employment.

8. The next President and Congress should act to restore confidence of Federal employees and of the American public in the fairness and effectiveness of Federal pay setting processes. They should among other things:

Take the actions recommended by the Commission to improve specific Federal pay groups.

Articulate criteria for long term effective pay setting processes, i.e., that the processes be:

easily communicated to the Federal workforce and to the public, and understood to be fair, equitable, and efficient.

easily monitored by the President and Congress.

adequate to meet the needs of the Federal government in respect to recruitment and retention of qualified employees.

Communicate what the pay setting provisions are, the way they work to provide reasonable pay, and how the provisions represent an efficient application of tax dollars.

9. The next President and Congress should stabilize and reliably carry out the terms and conditions of Federal compensation, refrain from politically expedient deviations, and require that demonstration projects that change basic terms and conditions of compensation be undertaken only in areas where compensation is reasonably adequate.

10. Future Presidents and Congresses should lead the American people in placing an appropriate value on the work of Federal employees.